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Friday, 22 January 2010, 15:14

C O N F I D E N T I A L SECTION 01 OF 04 CARACAS 000069

SIPDIS  
ENERGY FOR CDAY AND ALOCKWOOD  
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NSC FOR DRESTREPO AND LROSSELLO  
USDOC FOR 4332 MAC/ITA/WH/JLAO  
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AMEMBASSY OTTAWA PASS TO AMCONSUL QUEBEC  
AMEMBASSY BRASILIA PASS TO AMCONSUL RECIFE  
EO 12958 DECL: 2020/01/22  
TAGS ECON, EFIN, VE

SUBJECT: Venezuela's Economy in 2010: A Difficult and Uncertain Year

REF: 10 CARACAS 9; 09 CARACAS 1374; 10 CARACAS 27; 10 CARACAS 39 10 CARACAS 35; 10 CARACAS 5

CLASSIFIED BY: CAULFIELD, CDA, DOS, CDA; REASON: 1.4(B), (D)

1. (C) Summary: 2010 is shaping up to be another bad year for Venezuela economically. After oil prices fell in the second half of 2008, Venezuela 2009: The Year the Bubble Burst

2. (C) Venezuela's bubble burst in 2009. From 2004 through 2008, government spending, fueled by high oil prices, triggered a boom in consumption. Growth Outlook for 2010: Continued Recession or at Best Anemic Growth

3. (C) Forecasts by local and international analysts for GDP growth in Venezuela in 2010 range from 1.4 percent (Ecoanalitica, a local consultant). CARACAS 00000069 002 OF 004

what is almost surely to be increased fiscal spending, the pace of President Chavez's march toward socialism, and the potential for social and GBRV Economic Strategy for 2010: Devaluation and Increased Fiscal Spending

4. (C) Parliamentary elections scheduled for September are shaping up as the key political event for 2010. For this reason, local analysts have 5. (C) The January 11 devaluation, which will provide a massive revenue boost in bolivars to PDVSA and the GBRV, indicates the importance President 6. (C) The devaluation and increased spending are not panaceas for restoring growth, however. We expect the GBRV to increase public sector salaries

Controlling Inflation: BCV Intervention and Coercion CARACAS 00000069 003 OF 004

7. (C) The devaluation has caused some local analysts to raise their predictions for 2010 inflation from 30-35 percent to 35-50 percent. President Other Key Unknowns: Electricity Crisis and the March Toward Socialism

8. (C) The two-pronged electricity crisis Venezuela is currently experiencing is clearly having an impact on Venezuela's economy. Problems resulting 9. (C) The pace of President Chavez's march toward socialism will also have an impact on economic growth. State control over the economy is increasing

A Complex Feedback Loop: the Economy and the Social and Political Situation CARACAS 00000069 004 OF 004

10. (C) Small-scale protests, often related to economic or infrastructure issues, are common throughout Venezuela. According to a political economist